CONFEDERATION LIFE INSURANCE COMPANY

ANNUAL REPORT

1978

President's remarks

This year's annual report contains a statement from each of the three Regional Vice-Presidents and the Vice-President, Investments. These reports, together with the 1978 Financial Statements and Report of the Directors, tell the story of a very successful year for Confederation Life. We measure success in terms of providing good products and services to policyholders, growing faster than our competitors and generating earnings which, through dividend payments to policyholders, enable us to maintain the competitive level of our policies.

Net operating income in 1978 amounted to $19 million, considerably more than last year's record. Favourable mortality and a substantial increase in investment income were major contributors to this unexpectedly high figure. In addition, the new accounting rules laid down in the amended life insurance laws, resulted in reported earnings being $3.4 million greater than they would have been on the previous basis. Reference is made in the Notes to our Financial Statements to these new laws regulating life company statement accounting. As the Notes are somewhat technical, and as the changes which appear in the 1978 statements represent a special milestone in the history of life insurance accounting, it is appropriate to comment on their significance. The underlying purpose of the new laws is to produce financial statements of life companies which contain a more realistic picture of the earnings and solvency of each company.

Life insurance differs from most businesses where profit can be calculated at, or close to, the time a product is sold. A traditional life insurance policy sold today will be paid for with premiums that are spread over many years in the future. Premium levels must be established on the basis of estimates of future expense levels, interest rates and mortality patterns. Profits or losses on products sold today will develop only over a long period of years in the future. Thus, the profits which are shown for any one year are not the result of business done in that year but are largely the emergence of profits from business sold over a period going back many years. In examining the significance of the new rules governing our statements, this characteristic of life company profits must be accepted as one that cannot be altered by accounting changes.

A second peculiarity of life insurance earnings statements is that, in the case of many of our policies, acquisition costs accounted for in the year of the sale, exceed the premiums collected during that year. This results in a distortion unusual to most businesses. For a life insurance company, marketing success in a given year brings about an extra strain on reported earnings and, conversely, a year of poor sales, tends to improve the profit picture. In the long run, if the business has been soundly written and administered, profits should emerge. Actuaries and accountants have long discussed ways in which more "generally accepted accounting principles" could be applied so that acquisition costs might be spread over a period of years rather than charged to the year in which the business is issued. For many years some companies reduced or "modified" reserves in order to make some allowance for the impact of charging acquisition costs in the first year. This type of modification is now required under the new rules and amortization of the costs of acquiring business is expected in the form of a reduction in the policyholders' reserves.

John A. Rhind, *(left) President and Chief Executive Officer with* **J. Page R. Wadsworth,** *Chairman of the Board.*

In the past, reporting rules were designed principally to demonstrate a life company's solvency. To this end, the legislation specified the minimum basis on which policyholders' reserves were established, but companies were free to use more conservative reserves above this minimum level. The law now provides that reserves will be set at a level which the company's Valuation Actuary deems appropriate. The Canadian Institute of Actuaries and the Department of Insurance will be supervising the appropriateness of the reserves as determined by the Valuation Actuary.

Confederation Life has for many years been following reporting practices, in establishing its reserves, which have been generally consistent with the spirit of the new regulations. As a result, the impact of the current changes is not as great as it might have been. The 1978 increase in Policyholders' Reserves is about $1 million less than under our old valuation basis and the total amount of our reserves on the restated basis is lower by approximately $35 million. This facilitated the establishment of the Additional Reserve Required for Solvency Purposes as dictated by the new laws.

A further change lies in the treatment of investment earnings. Until now, capital gains, whether realized or unrealized, were ignored in the income statement. Such profits were credited through the surplus account, and then only in the year they happened to be realized which, in some cases, might be many years after the gain actually took place. Under the new laws, realized gains and losses on the sale of bonds and mortgages are brought into income over a period of years, based on the future lifetime of the security sold. In the case of stocks, both realized and unrealized gains and losses are to be amortized and brought into income at the rate of 7% annually. Gains and losses on real estate and certain other assets are fully taken into income in the year realized. The effect on Confederation Life of this treatment of capital gains and losses was to flow $2,045,000 of net gains into 1978 income.

Under the new rules, the demonstration of the Company's ability to meet its future obligations continues to be paramount. In addition, there is now substantial emphasis on the development of more appropriate income figures and, in general, on full and meaningful financial disclosure. We welcome these new reporting rules as an important and necessary step in maintaining our strength and in increasing the credibility of our industry in the eyes of the public.

There are other influences, which are being borne by the winds of change, that will cause the environment for our industry to remain far from static. The extraordinary increase in interest rates which has taken place in recent years is having a significant influence on many aspects of our business. Premiums on traditional life insurance policies are paid at regular intervals over a long span of years, some at times of interest rates well below those of today. These policies provide long-term guarantees in which interest earnings play a vital role. Those who seek the benefit of current high interest rates can only be guaranteed such rates on single premiums with guarantees running for a shorter span of years.

This situation combined with current tax incentives to direct savings into retirement plans and income averaging annuities, has caused an upsurge in the demand for single premium policies in which interest rates are based on current or "new money" levels.

The type of asset which best matches the liability we assume in issuing these single premium annuities, and which produces the required rate of interest over the life of the annuity, is a mortgage. As a result, the demands placed on life company investment operations to find more mortgage loans have increased dramatically. And this comes at a time when most other financial institutions are similarly seeking to expand their mortgage portfolios. With such large amounts of capital competing for mortgage investments it is understandable that mortgage interest rates have not increased to the degree we would have expected.

In recent years, changes in life company practices have also been made in response to consumer demands. Some criticism has been sound, some has been based on misunderstanding. Life insurance companies are currently being challenged on a practice which is fundamental to the business of assuming insurance risks. Certain critics are questioning the right of life companies to classify risks and charge different rates of premium to individuals whom the companies regard as having greater exposure to risk, because of occupation, sex, disability or medical condition. Such treatment, claim the critics, is unfair discrimination. While these accusations may seem unreasonable to us and while it must be obvious that if risk classification were abandoned, the cost of insurance would increase for the majority of policyholders, the challenge is not to be ignored.

The strongest attack against risk classification has been launched by those who demand that unisex annuity rates should be provided by life insurance companies. They charge that it is contrary to the principle of human rights to have different annuity rates for men and women. Conclusive evidence exists to show that a woman can expect to live longer than a man of equal age and similar health. A woman has to pay a higher premium for an annuity because she is likely to live longer and hence receive more payments. On the other hand, she pays a lower premium for life insurance. The principle involved is fair and valid.

The winds of change will continue to blow. Undoubtedly there will be further changes in the regulations of life company financial statements; economic conditions, interest rates and security markets will rise and fall; and critics and consumers will always have suggestions for improvements to our products and services. Throughout all this, men and women will continue to turn to life insurance companies to provide the facility for a collective means of supplying the protection they require.

Canada

In spite of continuing high levels of inflation and interest rates that generally have caused short term savings products to gain increased public favour, we are pleased to report sales of Confederation Life's traditional insurance products were strong during 1978. Individual Insurance sales results showed an increase of 12%, based on annual premiums, compared to an apparent gain of less than 8% for the total industry.

Excellent financial results were achieved in our Individual Insurance Operations. Of the many factors contributing to these, unusually favourable mortality was the most significant.

We are continuing to emphasize our sales manpower program which has as its goal a substantial increase in the size and productivity of our career agency force. The increasing proportion of our sales coming from representatives who are in their first two years with the Company reflects the success of this program.

Total industry sales in the Group Insurance market increased by a significant margin in the life insurance, health insurance and pension lines. Our strong market position was maintained in each of these lines and in particular, our life and health insurance premium income grew substantially with the decision of the Office de la Construction du Québec to place their life and health insurance benefits with us at the beginning of 1978.

Pension funds continued to take advantage of our investment management competence, utilizing Canadian and United States equities, bonds and mortgages. In addition, our pension fund product that provides a five-year interest rate guarantee continued to increase in popularity.

It is too early to ascertain whether the removal of wage controls will result in an expansion of the levels and types of employee benefits generally granted to Canadian workers. While this would seem to be a reasonable expectation, it is equally possible that increases in compensation in the first year following the control period will be predominantly in the form of wages.

Considerable attention continues to be focussed on private pension plans, with several studies at the Federal and Provincial level in varying stages of completion. Somewhat related, the Federal Government's study on mandatory retirement could lead to significant changes, not only in pension plans, but also in the whole range of employee benefits. We will continue to monitor these issues for possible impact on the group insurance market in Canada.

Financial results in our Group Insurance Operations, although satisfactory overall, were adversely affected by unfavourable claim rates in our long term disability benefits. This typically occurs in times of high unemployment. Corrective measures have been introduced.

The shortage of suitable long term commercial mortgages, necessary to match annuity deposits, resulted in our decision to limit sales of Single Premium Immediate Annuity products. Sales in 1978 were $24 million. We were not greatly concerned when the Federal Government in its April Budget altered Registered Retirement Savings Plan regulations to permit additional forms of payout. We believe that for most individuals, the life annuity with a guaranteed payment represents the best response to their needs and provides the best dollar value.

The results of 1978 give us confidence as we undertake our challenging objectives for 1979 and future years.

P. D. Burns
Vice-President, Canadian Operations

Confederation Life's exceptional claims service was the key factor in the sale of group insurance products to the 100,000 member construction association in Quebec. This service is provided by regional claims offices throughout Canada and the United States.

United States and Caribbean

Nineteen seventy-eight was a successful year in both the Individual and Group Divisions of the United States and Caribbean Operations. With one minor exception, new sales, premium growth and financial objectives were exceeded.

Our Individual Insurance Division is represented in the United States through a general agency organization and in Puerto Rico through branch offices in Santurce and Hato Rey. We are particularly proud of our Santurce branch which, under the leadership of Alfredo Bermudez, led the Company with sales of $1,048,000 of new premiums.

The increase from 26 general agencies in 1968 to the current 165 is an indication of our aggressive development in the U.S. market. These agencies represent a large number of knowledgeable and dedicated individuals whose markets are generally in the corporate or estate fields. Our average new policy sale is more than $75,000, considerably above the industry average.

During the year new policy series were introduced, where permitted by State legislation, to reflect 4% cash values and an 8% loan provision. The effect of these changes was to improve the interest-adjusted cost to the policyholder. Research on potential markets and appropriate products receives continued attention.

At the present time Confederation Life is licensed to operate in 51 jurisdictions, including the District of Columbia and Puerto Rico, and is represented in 38. We believe there is great potential for future growth.

In Dominican Republic we are represented by "Domisei", a general agency. In Barbados we operate through a branch office. We are fortunate to be represented in both countries by field and office staffs of very high calibre, as evidenced by their sales in 1978 in excess of $1,100,000 of new premiums.

Over the last decade premium income in the Individual Division has grown at a compound annual rate of 15.5% to reach $55,271,000 at the end of 1978.

United States Group Operations achieved a balance of growth and profitability. Our marketing and financial results exceeded expectations in both the Life and Health lines.

The attainment of these objectives was primarily a reflection of the expertise of our staff in sales, service and claims facilities located in major United States cities. The close liaison between staff in the field and the supporting team in Home Office continues to be one of our strongest assets.

The health insurance losses of 1976, caused mainly by rapid inflation in health care costs, have been brought under control and a more orderly growth pattern has been established. Our research facilities have been enlarged substantially to maintain a watching brief on rising health care costs and to investigate new market and product opportunities.

During 1978, Federal and State authorities continued to issue regulations affecting the group insurance industry. In particular, recent amendments to the Civil Rights Act and Age Discrimination in Employment Act will require compliance by the insurance industry.

United States and Caribbean premium income from Group and Individual operations amounted to $105,000,000 in 1978. Confederation Life's compound growth rate over the past decade of 16.3% is well above the industry average. Future plans include expanded representation throughout the United States. We look forward to a continuing increase in our share of the market.

P. W. Lloyd
Vice-President, United States and Caribbean Operations

New policy information is entered on a terminal by Anna Charles, a data entry clerk at Home Office. The terminal system enables Confederation Life to provide fast, efficient underwriting and policy issue.

United Kingdom

Nineteen seventy-eight was a year of economic recovery in the United Kingdom. The inflation rate of about 8% was half that of the previous year. Real incomes increased substantially and the life insurance industry had an excellent year.

Our U.K. sales force took early advantage of market conditions and maintained a high level of activity throughout the year. Production increased by a remarkable 43%, a figure considerably better than the rate for the industry and our own objectives.

Senior Underwriter, Jack Shapiro, of London Central Branch, wrote $204,631 of net premium credit to become the leading Individual Sales Producer in the Company. London Central Branch, with Emil Lowenstein as Manager, placed second in company-wide branch standings.

The excellent growth achieved in our total premium base was accomplished within budgeted expense and the year's total financial results were highly satisfactory. The net return on new investments in 1978 was better than planned and, for the first time in several years, a decrease was achieved in the ratio of administrative expense to premium income. Confederation Life was one of very few companies in the U.K. to improve policy bonus rates.

During the year a computer was installed in the U.K. Chief Office, providing a direct internal link with the central computer in Toronto. This development increases our capacity to handle expected growth while maintaining our high level of service.

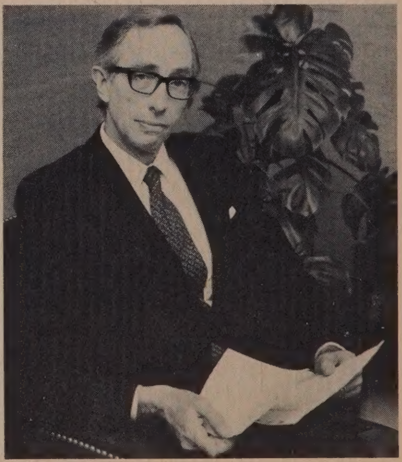
The U.K. region has new and ambitious sales, service and financial objectives for 1979 and the longer term. An essential element in achieving these goals will be more rapid growth in the size of our sales force. In this, a key role will be played by the Regional Managers who are assuming expanded responsibilities for branch development.

An on-going communications program between Chief Office and Branches will be maintained to enhance the interchange of ideas within our U.K. organization.

A special task force comprising members of Field and Chief Office management did valuable work in a study of our product portfolio and how we might broaden its range to meet changing financial needs in an increasingly sophisticated market. The findings of this task force are playing a significant role in our future plans.

The future, in the U.K. region as elsewhere, will no doubt present unforeseen challenges, but with the quality team which achieved so much in 1978, we are confident of continued success.

A dial-up telephone connection links the new computer at Chief Office in London, England with the computer at Home Office in Toronto. Don Woolridge, Corporate Vice-President, Systems, left, Paul Woolston, Manager of the Home Office Computer Centre, and Bill Caverley, Assistant Vice-President, Data Processing, stand by for the first transmission of data.



Paul Wortman
Vice-President and General Manager
for the United Kingdom

Investments

During 1978 total assets of Confederation Life increased by $289 million to total $2.32 billion. The investment of these funds was the responsibility of investment teams located in Home Office, property branches across Canada and Chief Office, U.K.

In **Canada** the 1978 financial market environment was highlighted by a dramatic rise in interest rates. The chartered banks' prime lending rate increased from 8.25% to 11.50% in six separate steps. Long term bond yields increased from 9.60% to 10.25% as evidenced by the McLeod Young Weir 50 Bond Index and mortgage rates increased 1% to 11¼%. The Toronto Stock Exchange 300 Index closed at 1324, up 23.8%.

Investment policy for the general funds continued to emphasize mortgages. We approved a record amount for both general and segregated funds of $160 million at an average rate of 10.52%. Toward year end a shortage of mortgages was becoming increasingly evident.

At year end our investment policy for the majority of our group pension segregated clients called for a cash flow allocation of 45% common stocks (35% Canadian and 10% U.S.) and 55% fixed income (30% bonds and 25% mortgages).

The **United States** also experienced a dramatic increase in interest rates. The prime bank rate rose from 7.75% at 1977 year end to 11.75%. Salomon AA new issue utility yields increased from 8.65% to 9.55% and conventional mortgage rates increased from 9⅛% to 10%. The stock market closed the year relatively unchanged with the Standard & Poor's 500 Index at 96.11, up 1.1%.

Our investment policy for new money for the U.S. general funds changed to a 100% mortgage orientation. Our total mortgage approvals were a record level of $32.8 million at an average yield of 9.68%. We continued our strategy of maintaining a moderate cash position in our bond account with the expectation of higher long term yields.

The Wall Street Journal, Pension & Investment Magazine, the New York Times and the Chicago Tribune applauded the excellent performance (compared to the stock market averages and the competition) of our U.S. common stock funds.

Financial markets in the **United Kingdom** were affected by a sharp rise in long yields. The yield on British Government 25 year bonds increased from 11.30% to 13.30%. The stock market was relatively unchanged during the year.

We emphasized investment in new issues of British Government and secondary issues of industrial bonds in the absence of new corporate bond offerings and few mortgage inquiries.

Investment policy for unit-linked funds continued to emphasize a mix of bonds (40%), stocks (50%) and properties (10%). Results of our U.K. segregated funds have been excellent, with our fixed income fund being the top performer on the Harris Graham Survey for the 12 month period ending September 30th, 1978.

J. H. Watson
Vice-President, Investments

During the 1978 Group Pension Client Investment Conference, Pension Fund Investment Vice-President Tony Hamblin, third from left, gave clients a tour of the bond trading area where Senior Investment Analyst John Cassidy, seated, described the activity on the terminal screen.

Report of the Directors to Policyholders

The year 1978 was one in which Confederation Life fulfilled, in a highly satisfactory manner, its role as a major international mutual life insurance company. Improved earnings permitted appropriate increases in the surplus required to support the growth of risks assumed and provided funds for increases in the levels of dividends paid to policyholders. In addition, these earnings have made capital available for expansion of new business activity.

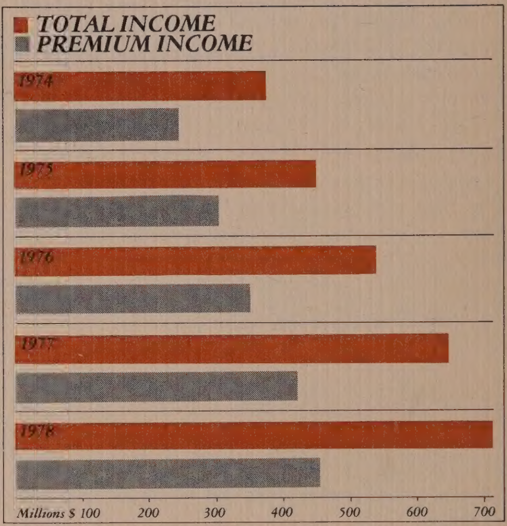
After providing for corporate taxes, net operating income was $19,379,000 compared to $9,764,000 in 1977. Better than expected mortality experience and higher investment income were major contributors to this gain. In 1978, the insurance laws of Canada required significant changes in life insurance financial statements. These changes caused 1978 net operating income to be approximately $3.4 million greater than it would have been had the 1977 basis been used. The major elements of these changes are outlined in Note 1 to the Consolidated Financial Statements.

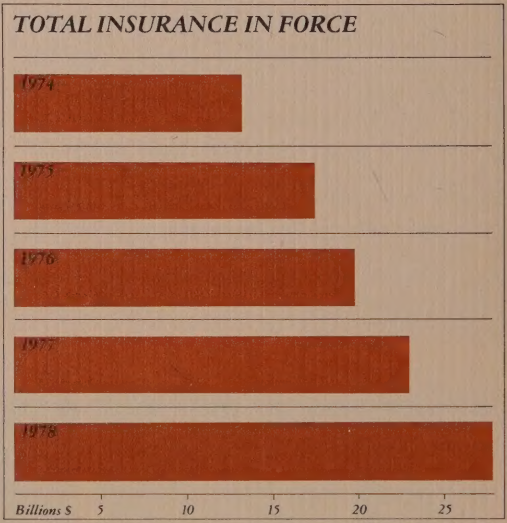
Sales of individual life insurance amounted to $24.9 million of new annual premiums in 1978, an increase of 7.4% over 1977. Of this amount Canadian business accounted for $7.2 million, an increase of 2.9%, or 12.2% if single premium immediate annuities are excluded. United States sales were $8.7 million, up 2.3% and Caribbean $1.1 million, about the same as in 1977. United Kingdom individual sales increased by the extraordinary amount of 43.2%, to reach $7.9 million.

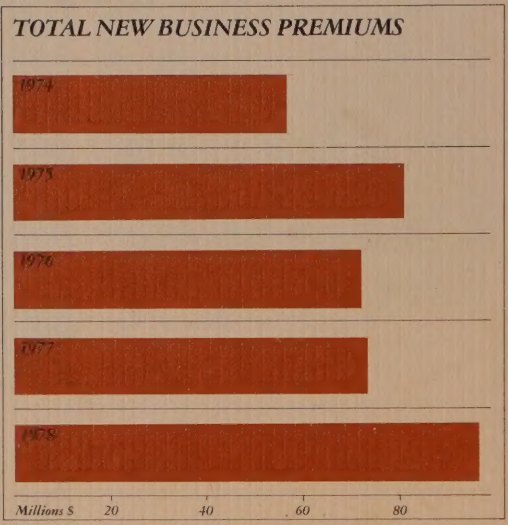
Group sales totalled $71.3 million, up from $50.0 million in 1977. In Canada, we maintained our strong position in the group market. In the United States, we experienced a major improvement in group life and health business, in terms of both new business and financial results.

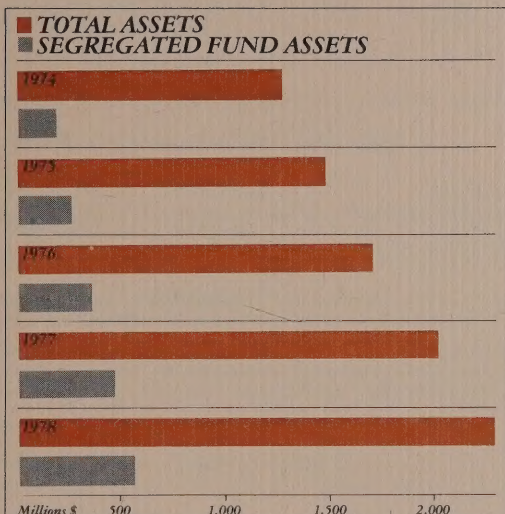
Business in force increased significantly. Individual life insurance and annuities rose from $6.3 billion to $6.9 billion of sums insured, and Group life insurance in force increased from $14.4 billion to $18.6 billion. Group health premiums in force rose from $145.9 million to $179.7 million. Confederation Life continued to play a major role in the Canadian pension market. Total general and segregated fund assets being managed for worldwide group pension clients increased from $565 million to $670 million.

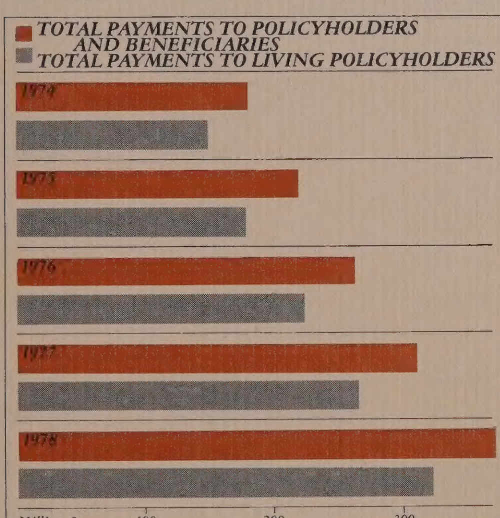
Total income from all sources reached $718 million, an increase of 10.7%. Of this amount, $458 million represented premiums from policyholders, $121 million arose from segregated fund deposits and investment income, and $139 million was investment income from general funds. Payments to policyholders and beneficiaries, together with the provision for such future payments, increased 9.7% to $599 million. Sales and administrative expenses rose 11.5% to $80 million.

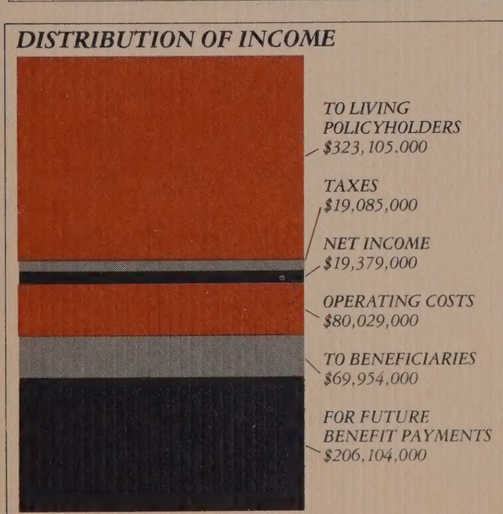












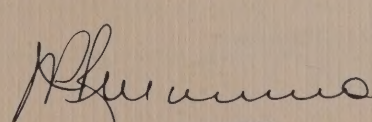
At year end, general funds, that is assets exclusive of segregated funds, totalled $1,760 million, an increase of $191 million, or 12%. Mortgages totalled $720 million, an increase of $98 million, and the bond account rose by $69 million to $614 million. The book value of stocks increased $10 million to $96 million. Policy loans amounted to $138 million after an increase of $12 million, which is about the same as the increase in each of the past three years. The net rate of interest earned on general fund assets, after deducting investment expenses, rose to 8.89% from 8.31%.

The Balance Sheet shows the establishment of an Additional Reserve Required for Solvency Purposes amounting to $62,118,000 as at the end of 1978, as dictated by the new insurance laws pertaining to life company statements. In restating the Balance Sheet at the end of 1977, the corresponding Reserve was $53,704,000, the establishment of which was facilitated by a reduction, enabled by the new legislation, in Actuarial Liabilities, and by a transfer from the Investment and Contingency Reserve.

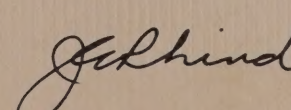
In addition to making the increase in the Additional Reserve Required for Solvency Purposes of $8,414,000, we were also able in 1978 to increase the Investment and Contingency Reserve by $5,600,000 and the Surplus by $7,318,000.

In September, R. Murray Bell, Q.C. retired as Vice-President, General Counsel and Secretary. Mr. Bell had made a significant contribution in many fields of Confederation Life activity during the thirty-two years in which he served the Company. We are pleased to announce the appointment of William R. Learmonth, Q.C. to take Mr. Bell's place.

The Directors express to the staff and those in the field, in the many regions served by this Company, their appreciation for the contribution each has made toward the splendid results achieved in 1978.



J. Page R. Wadsworth
Chairman of the Board



John A. Rhind
President and Chief Executive Officer

Consolidated Statement of Operations

for the year ended December 31, 1978 *Stated in 000's of Dollars*	1978	1978	1977
		Based on 1977 Laws (Note 1)	
INCOME			
Premiums from Policyholders	$458,268	$458,268	$420,115
Segregated Funds being Deposits and Income	120,715	120,715	112,824
Interest, Dividends and Rents			
Less Investment Expenses (Note 4)	138,673	136,627	115,124
	$717,656	$715,610	$648,063
DISTRIBUTION OF INCOME			
To Policyholders and Beneficiaries			
Death Claims	$ 69,954	$ 69,954	$ 61,039
Endowments Matured	8,084	8,084	7,548
Annuity Payments	34,070	34,070	28,520
Disability and Health Benefits	150,744	150,744	132,459
Surrender Payments	79,389	79,389	52,649
Interest to Policyholders	6,950	6,950	6,297
Increase in Segregated Fund Liabilities	68,625	68,625	93,037
Increase in Policyholders' Reserves (Note 6)	137,479	138,527	126,221
Dividends to Policyholders Paid or Set Aside	43,868	43,868	38,285
Operating Expenses			
Service, Sales & Administration Expenses	80,029	80,369	71,754
Premium and Income Taxes (Note 7)	19,085	19,085	20,490
	$698,277	$699,665	$638,299
Net Income on Operations	$ 19,379	$ 15,945	$ 9,764

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Consolidated Statement of Surplus

for the year ended December 31, 1978
Stated in 000's of Dollars

Balance, End of Preceding Year as Previously Reported	$75,629
Restatement of Actuarial Liabilities (Note 1)	34,570
Restatement of Other Assets (Note 1)	4,016
Restatement of Investment and Contingency Reserve (Note 1)	17,600
Establishment of Additional Reserve Required for Solvency Purposes (Note 1)	(53,704)
Balance, End of Preceding Year as Restated	$78,111
Net Income on Operations	19,379
Transfer to Additional Reserve Required for Solvency Purposes	(8,414)
Transfer to Investment and Contingency Reserve	(5,600)
Reduction of Tax Liabilities (Note 7)	1,953
Balance, End of Year	$85,429

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Consolidated Balance Sheet

as at December 31, 1978 *Stated in 000's of Dollars*	*1978*	*1977 Restated (Note 1)*
ASSETS		
Bonds (Note 5)	$ 614,475	$ 545,754
Stocks (Note 5)	96,104	85,935
Mortgage Loans (Note 5)	719,756	621,664
Segregated Investments (Market Value)	561,260	463,117
Home Office Property and Computer Equipment	19,267	18,844
Real Estate Investments	90,088	92,456
Loans on Policies	138,003	125,622
Cash and Bank Short Term Paper	7,459	2,699
Interest and Rents Earned but not yet Received	27,546	29,088
Premiums in Course of Collection	35,632	34,945
Other Assets	11,864	11,867
	$2,321,454	$2,031,991
LIABILITIES & SURPLUS		
Policyholders' Reserves (Note 6)	$1,195,192	$1,060,397
Provision for Unreported or Incomplete Claims	161,752	137,101
Provision for Future Dividends to Policyholders	48,370	45,165
Actuarial Liabilities	$1,405,314	$1,242,663
Policy Proceeds, Dividends and Other Amounts on Deposit	102,796	93,156
Policy Claims in Process of Payment	17,275	14,053
Segregated Investment Funds	561,260	463,117
Bank Loans	—	15,000
Taxes and Other Liabilities	36,262	26,787
Total Liabilities	$2,122,907	$1,854,776
Additional Reserve Required for Solvency Purposes	62,118	53,704
Investment and Contingency Reserve	51,000	45,400
Surplus	85,429	78,111
	$2,321,454	$2,031,991

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Notes to Consolidated Financial Statements

1. Certain significant changes in the insurance laws of Canada, pertaining to life insurance financial statements, became effective in 1978, as follows:

(i) The bases for the calculation of policyholders' reserves have been revised. Certain constraints on the choice of valuation assumptions have been removed, and additional deferral of acquisition expenses, considered to be recoverable from future premiums, is now permitted.

(ii) Additional "other assets" such as furnishings, supplies, fees receivable and commission advances are now recognized in the statements.

(iii) An additional reserve must be established to provide for certain solvency requirements.

(iv) Realized gains and losses on the sale of bonds and mortgage loans are to be amortized and brought into income over the future lifetime of the security, but for a period not exceeding 20 years.

(v) Realized and unrealized gains and losses on stocks are to be amortized and brought into income at the rate of 7% annually.

(vi) Gains and losses on real estate and on certain miscellaneous assets are not amortizable, and are included in income in the year realized.

These changes have been fully reflected in the 1978 consolidated financial statements. The 1977 consolidated balance sheet has been restated to reflect the applicable changes, the adjustments having been carried to the consolidated statement of surplus as at December 31, 1977.

Because of the form and nature of the changes in the laws, the 1977 consolidated statements of operations and surplus have not been restated. For comparative purposes, the 1978 consolidated statement of operations excluding the effect of the 1978 changes in the law, and the 1977 consolidated statement of operations, as reported, have been shown.

2. Financial statements are prepared on a consolidated basis to include the operations of the Company's wholly-owned life insurance and real estate subsidiaries.

3. Throughout the statements, United States currency is included at the rate of $1.00 Canadian to the U.S. dollar. Sterling currency is included at $2.20 Canadian to the pound. If current rates of exchange had been used in the balance sheet there would have been an increase in the surplus shown of about 4 per cent.

4. Interest, dividends and rents include the amortized portion of net losses on bonds and mortgage loans of $271,000, net amortized gains on stocks of $1,248,000, and the entire net gains on real estate and other assets of $1,068,000.

5. As prescribed by the insurance laws of Canada, bonds are valued at amortized cost, adjusted for accumulated unamortized net losses of $4,866,000, mortgage loans at amortized cost, adjusted for accumulated net gains of $125,000, and stocks at cost less an adjustment of $642,000.

6. The amount of Policyholders' Reserves in the consolidated balance sheet is after deduction of deferred acquisition expenses of $62,947,000 (1977—$58,842,000). The Increase in Policyholders' Reserves in the consolidated statement of operations is after deduction of $4,005,000, being the increase in deferred acquisition expenses.

7. Full provision on a taxes payable basis, is made in the consolidated statement of operations for all taxes in respect of the current year's income. Adjustments of tax liabilities in respect of prior years are included in the consolidated statement of surplus.

8. Certain reclassifications have been made in the 1978 statements, and the restated 1977 figures have been adjusted accordingly.

Report of the Valuation Actuary

I hereby certify that the Actuarial Liabilities and the Additional Reserve Required for Solvency Purposes included in the consolidated balance sheet as at December 31, 1978 conform to the requirements of the Canadian and British Insurance Companies Act. In my opinion, the amount of Actuarial Liabilities makes proper provision for the obligations payable in the future under the Company's policies, and a proper charge on account of those liabilities has been made in the consolidated statement of operations for the year 1978.

Michael Rosenfelder, F.C.I.A.
Corporate Vice-President
Actuarial, Statements & Taxation

Toronto, Canada
January 25, 1979

Auditors' Report

To the Policyholders and Directors
of Confederation Life Insurance Company

We have examined the consolidated balance sheet of Confederation Life Insurance Company as at December 31, 1978 and the consolidated statements of operations and surplus for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances; we have relied on the report of the Company's Valuation Actuary as to the amount of the Company's Actuarial Liabilities and Additional Reserve Required for Solvency Purposes.

In our opinion, based on our examination and the report of the Company's Valuation Actuary, these financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations for the year then ended in accordance with accounting practices prescribed or permitted by the Department of Insurance, Canada.

Clarkson, Gordon & Co.,
Chartered Accountants

Toronto, Canada
January 25, 1979

International Sales, Service and Investment

CANADA

Calgary, Alta.
Edmonton, Alta.
Fredericton, N.B.
Halifax, N.S.
Hamilton, Ont.
London, Ont.
Montreal, P.Q.
Ottawa, Ont.
Peterborough, Ont.
Quebec City, P.Q.
Regina, Sask.
Saskatoon, Sask.
Sherbrooke, P.Q.
St. Catharines, Ont.
St. John's, Nfld.
Sudbury, Ont.
Trois-Rivières, P.Q.
Thunder Bay, Ont.
Toronto, Ont.
Vancouver, B.C.
Victoria, B.C.
Waterloo, Ont.
Windsor, Ont.
Winnipeg, Man.

UNITED STATES

Aiea, HI.
Albuquerque, N. Mex.
Alexandria, Va.
American Fork, Utah
Atlanta, Ga.
Baltimore, Md.
Beachwood, Ohio
Birmingham, Ala.
Bismarck, N. Dak.
Boston, Mass.
Burlington, N.C.
Carmel, Calif.
Casper, Wyo.
Charlotte, N.C.
Cherry Hill, N.J.
Chevy Chase, Md.
Chicago, Ill.
Cincinnati, Ohio
Cinnaminson, N.J.
Clark, N.J.
Cleveland, Ohio
Clifton, N.J.
Colorado Springs, Colo.
Columbus, Ga.
Columbus, Ohio
Coral Gables, Fla.
Dallas, Tex.
Dayton, Ohio
Daytona Beach, Fla.
Denver, Colo.
Detroit, Mich.
East Lansing, Mich.
Elkart, Ind.
El Paso, Tex.
Encino, Calif.
Erie, Pa.
Evanston, Ill.
Fairfield, N.J.
Fargo, N. Dak.
Gaithersburg, Md.
Grand Junction, Colo.
Grand Rapids, Mich.
Hartford, Conn.
Hartford, Wisc.
Houston, Tex.
Honolulu, HI.
Indianapolis, Ind.
Jacksonville, Fla.
Johnstown, Pa.
Kansas City, Mo.
Kennett Square, Pa.
Kosciusko, Miss.
Lexington, Ky.
Los Angeles, Calif.
Louisville, Ky.
Lubbock, Tex.
Lynchburg, Va.
Madison, Wisc.
Marietta, Ga.
McAllen, Tex.
Memphis, Tenn.
Miami, Fla.
Midlothian, Va.
Milwaukee, Wisc.
Minneapolis, Minn.
Moorhead, Minn.
Mount Vernon, Ohio
Nashville, Tenn.
Newark, N.J.
Newhall, Calif.
New Orleans, La.
Oakbrook, Ill.
Oakland, Calif.
Oklahoma City, Okla.
Omaha, Neb.
Orlando, Fla.
Pasadena, Calif.
Peoria, Ill.
Philadelphia, Pa.
Pittsburgh, Pa.
Pompton Plains, N.J.
Portland, Ore.
Portsmouth, Va.
Providence, R.I.
Raleigh, N.C.
Reno, Nev.
Roanoke, Va.
San Carlos, Calif.
San Francisco, Calif.
Sandusky, Ohio
San Mateo, Calif.
Sarasota, Fla.
Seattle, Wash.
Severna Park, Md.
Sherman Oaks, Calif.
Silver Spring, Md.
Southfield, Mich.
St. Cloud, Fla.
St. Petersburg, Fla.
Teaneck, N.J.
Toledo, Ohio
Tulsa, Okla.
Vienna, Va.
Westboro, Mass.
Wilmington, Del.
Winston-Salem, N.C.
Worcester, Mass.
Yardley, Pa.

PUERTO RICO

Bayamon
Caguas
Mayaguez
Ponce
San Juan
Santurce

EASTERN CARIBBEAN

Bridgetown (Barbados)
Castries (St. Lucia)
Kingstown (St. Vincent)

DOMINICAN REPUBLIC

Santiago
Santo Domingo

UNITED KINGDOM

Belfast
Birmingham
Brighton
Bristol
Cardiff
Edinburgh
Glasgow
Hull
Ipswich
Leeds
Liverpool
London
Manchester
Newcastle
Nottingham
Plymouth
Preston
Reading
Romford
Sheffield
Southampton
Swansea

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Chairman of the Board

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President and Chief Executive Officer

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Vice-President
Partner, Fraser & Beatty

George E. Mara
Vice-President
Chairman, Jannock Corporation Limited

George R. Albino
President and Chief Operating Officer,
Rio Algom Ltd.

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Former President, University of Toronto

Conrad M. Black
President, Argus Corporation Limited

Robert F. Chisholm, O.B.E.
Director, R. L. Crain Limited

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The Oshawa Group Limited

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Vice-President, United States and
Caribbean Operations

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Vice-President, Investments

David E. Watts
Vice-President, Corporate

Paul Wortman
Vice-President and General Manager
for the United Kingdom